

MINUTES OF THE BOARD OF TRUSTEES CITY OF CINCINNATI RETIREMENT SYSTEM May 1, 2003

The Chairperson called the meeting to order at 1:30 p.m. with the following members present:

John Bowling
John Cranley
Joe Harrison
Valerie Lemmie, City Manager
William Moller
Michael Rachford
V. Daniel Radford, Chairperson
Ely Ryder
Paula Taylor
Ed Volpe

Member/s Absent:
Minette Cooper (proxy for Mayor Charlie Luken)

Mr. Radford called for a motion to approve the minutes of the April 3, 2003 meeting. The motion was made by Mr. Harrison, seconded by Mr. Moller and carried; the minutes were approved as prepared by the Secretary.

BENEFITS COMMITTEE

Ms. Taylor reported that Benefits Committee met on April 24, 2003. Ms. Taylor gave the following report.

1. Application for Ordinary Retirement May 1, 2003: Total – 11

No.	NAME	DEPARTMENT
30601	Annabelle Sharp	Hamilton County
37677	John Forbes	MSD
38091	Emery Maury	Recreation
39147	Virginia Boatman	Health
39241	Michael McKinney	Recreation
39300	Jeff Kapela	Parks
40266	Janie Fraser	City Manager
40927	William Belbot	RCC
42773	Donna Honroth	University Hospital
44599	Joyce Dickinson	University Hospital
47071	Charles Holtkamp	MSD

2. Application for Retired Members Death: Total - 10

3. Application for Disability Retirements: Total - 2

NO.	NAME	DEPARTMENT
48767	Curry Ingle	MSD
50936	Peter Clark	

4. Application for Deferred Retirement: Total –1

NO.	NAME	DEPARTMENT
51050	Daniel Pope	

Ms. Taylor also reported that representatives of Human Resources and Risk Management were in attendance to discuss the Return to Work Program. It appears that this program has been successful in reducing the number of disability retirements, and the Committee will gather disability retirement statistics for the last five-year period to help document the success of the program. In order to increase awareness of this program, Mr. Moller has arranged for a presentation of the Return-to-Work program be conducted at the City Manager's weekly meeting of department heads.

Ms. Taylor moved that the Board accept the report of the Benefits Committee, seconded by Mr. Ryder and approved by the Board.

INVESTMENT COMMITTEE

Mr. Moller reported that based on the preliminary data provided by Northern Trust, the investment performance of the total fund for the first quarter was -1.94%. This is 57 basis points better than the Cincinnati benchmark index that returned -2.51%.

Mr. Moller also reported that at their meeting held April 4, 2003, the Investment Committee met with the senior management of Blue Chip Venture Capital to discuss the investment performance of the various funds as well as the economic impact their firm has had on the Cincinnati area. Blue Chip reported that as of 12/31/02, the net annualized rate for returns were 13.2% on Blue Chip I, 6.0% on Blue Chip II, -38.0% on Blue Chip III, and -10.0% on Blue Chip IV. Looking forward, Blue Chip forecasts that the rates of returns will be 12.7% for Blue Chip I, 10.5% for Blue Chip II, -4.1% for Blue Chip III, and 16.6% for Blue Chip IV.

After the presentation, Mr. Radford asked the retirement staff to update the Committee on the plan's financial commitment to the investments in the Blue Chip funds.

ACTUARIAL REPORT

Mr. Gary Dickson, Mr. Anthony Lloyd, and Mr. Justin Buerkle from Mercer Consulting were in attendance to present to the Board the actuary report for the year ending 12/31/02. Mr. Dickson reported that the number of retirees continues to grow at the same time the number of active employees continues to decrease. At year-end, there were 3,846 active full-time participants and 4,585 retirees and deferred participants. (For comparison purposes, in 1978 there were 8,683 active full-time participants and 2,551 retirees and deferred participants).

Mr. Dickson also reported that the total normal cost (the cost of an additional year of service for current employees) is 20.42% of payroll. Assuming the employee contribution remains at an effective rate of 7.32%, the employer's normal contribution rate is 13.10% of payroll. Because the plan still has unrecognized gains from prior years, the amount the employer would be required to contribute in 2004 would be reduced to 11.25%. Mr. Cranley asked why there is such a large difference in the employer contribution rate of -4.81% as of 12/31/2000 and the 11.25% as of 12/31/2002. Mr. Dickson explained that the method used to smooth the level of assets has resulted in the investment losses from the last three years to not yet be fully recognized. The actuarial value of assets currently exceeds the market value by \$400 million, and

over the next four years this \$400 million will be recognized in calculating the total contribution to the plan. The normal contribution rate to the plan will increase from the current 18.57% to an estimated 45% of pay, which translates to incremental contributions of \$45 to \$50 million.

Mr. Radford asked if the actuarial smoothing of assets is a common practice, and Mr. Dickson estimated that 85% to 90% of plan sponsors use asset smoothing methods. Mr. Ryder asked what the impact of reducing the 8.75% assumed rate of return would have, and Mr. Dickson stated that this would further weaken the financial strength of the plan, resulting in the need for increased plan contributions and/or reduction in benefit levels.

Mr. Dickson reported that the present value of benefits (the present value of all future benefits based on projected pay and service that current participants are expected to receive) is \$2.54 billion. The actuarial accrued liability (the portion of the present value of benefits that has already been earned by virtue of past service) is \$2.34 billion. The funding progress (the ratio of actuarial value of assets to actuarial accrued liability) of the plan is 101%, but decreases to 84% if you use the market value of assets instead of the actuarial value of assets to perform this calculation.

Mr. Dickson stated that a unique aspect of the Cincinnati retirement plan is the fact that medical liabilities are pre-funded. Virtually all other plans pay their medical liabilities on a pay-as-you-go system. Of the \$2.34 billion actuarial accrued liability, \$760 million is allocated for medical liabilities and about \$1.6 billion for pension liabilities.

Mr. Moller commented that increasing the employer contribution rate from the current 7.0% to approximately 11.0% in 2004 would result in additional contributions by the City of \$7 to \$8 million per year. Mr. Bowling suggested that the Board review the current policy of pre-funding medical benefits to determine if changes to this policy could soften the current financial problems. Mr. Radford suggested that the agenda for the upcoming Board retreat focus on the plan's funding problems, and that the Board will need to work closely with City Council to find solutions to this issue.

Mr. Moller moved that the Board accept the actuarial report with the understanding that it does not determine the actual contribution rate that will be made in 2004. Ms. Lemmie seconded the motion, and the motion passed unanimously by the Board.

SECRETARY'S REPORT

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 69
2. Resolution for Return of Contributions –Total: 42 Amount: \$317,640.69
3. Resolution for Loans to Members – Total: 38 Amount: \$380,618.81
4. Report on Deaths of Pensioned Members – Total: 15
5. Report on Military Service Credit prior to Membership – Total: 3

The Secretary submitted the following vouchers for payment:

PAYEE	AMOUNT
All Star Personnel Inc. – Temporary Personnel Services	\$4,022.80
City of Cincinnati – Printing Services, Billing for March 2003	\$1,106.90
City of Cincinnati – Telecommunications Telephone Services for March	\$392.31
Mae Consulting Inc. – Professional Services rendered in Feb. 2003	\$1,240.00
City of Cincinnati – Division of Stores, Billing for stores items for March	\$148.27
NCPERS – Registration fee for Minette Cooper - May 18-22, 2003	\$400.00
NCPERS – Registration fee for Edwin Volpe – May 18-22, 2003	\$400.00
Adams's Mark Hotel - Lodging for Board Members attending conference on May 18-22, 2003	\$3,653.10
Paula Taylor – Per diem & taxi while attending conference April 13-14	\$184.00
ABS Business Products Inc. – Monthly Rental rate for copier	\$238.50
Paul T. Hogya, MD – Medical Exams for Disability Applicants	\$675.00
Advanced Transitions Inc. – Return to work, case management	\$581.40
US Postal Service – Accounting and Annual fees	\$625.00
The Northern Trust – Custodial Services	\$64,765.48
Mercer Human Resource Consulting – Actuary Services Rendered	\$41,671.00
Levi, Ray & Shoup Inc. – Pension Gold Services	\$1,050.00
Mae Consulting Inc. – Professional Services Rendered in March 2003	\$1,480.00
Wyoming Travel Inc. – Reimbursement for Airfare to NCPERS conference for P. Taylor and J. Harrison	\$1,187.26
All Star Personnel Services – Temporary Personnel Services	\$3,202.13
All Star Personnel Services – Temporary Personnel Services	\$2,462.62
Edwin Volpe – Reimbursement of Parking	\$8.00
Mae Consulting Inc. – For services rendered in March 2003	\$620.00

Squire Sanders & Dempsey, LLP	\$436.66
Business Information Solutions Inc. – Storage of CRS files	\$128.68

The Secretary reported that at the close of business, April 30, 2003, there was in the Treasury, to the credit of the Retirement System \$3,328,694.28.

Asset Valuation:

- December 31, 2002: \$1.99 billion
- March 31, 2003: \$1.93 billion
- YTD Increase (Decrease): (3.21%)

Current Asset Allocation: (Policy Objective)

- Domestic Equity: 52.2% (50%)
- International: 12.3% (13.5%)
- Fixed Income: 34.6% (33.5%)
- Alternative Assets/Treasury Cash: 0.9% (3%)

Mr. Moller reported that the asset level as of 3/31/03 was \$1.93 billion compared to \$2.36 billion one year ago. Year-to-date, asset levels have declined by 3.2%.

OTHER BUSINESS

Mr. Radford mentioned that the Board may want to review its current policies on allowing members to make post-retirement changes to their beneficiaries. Mr. Radford cited a current case in which a retiree recently passed away and his current wife, whom he married after his retirement, ceased receiving benefits. The retirement staff commented that in this case, the retiree had selected his daughter as his beneficiary at the time of his retirement, but the daughter preceded him in death. Mr. Harrison commented that the Board has reviewed similar types of cases many times previously and has consistently ruled that retirees cannot change their beneficiary after their retirement.

PENDING BUSINESS

Corporate Governance: Mr. Fink reported that the retirement staff is continuing to work with the Law Department on this issue and anticipates delivering a report to the Board at the June meeting.

Asset/Liability Study: Mr. Fink also reported that the asset/liability study would kick-off tomorrow at the Investment Committee meeting with a presentation by PCA/EFI. Mr. Fink encouraged all Board members to attend if at all possible as this study will be very important in establishing the investment strategy over the next several years.

Member Statements: Mr. Giles reported that member statements that cover the two-year period 2001 and 2002 have been mailed to active members.

Board Retreat: Mr. Fink reported that the date of the Board retreat has been set for Friday, August 8. The location has not yet been determined.

HIPAA: Mr. Fink reported that a letter explaining the new HIPAA regulations have been mailed to all retirees.

NEW BUSINESS

Mr. Rachford introduced a motion, seconded by Mr. Harrison, that the Board of Trustees as a group endorse the lawsuit filed against the City of Cincinnati by eight of the eleven Board members. The suit seeks compensation from the City for a share of the Anthem demutualization proceeds.

Mr. Cranley indicated that he strongly objected to this motion, and questioned why these Board members were filing this suit when the City has been very generous to the plan over the years. Mr. Cranley commented that this suit could damage the relationship that the City and the Board have established at the very time these parties will need to work together to resolve very serious funding problems. Mr. Bowling commented that these individuals were concerned that they would not be satisfying their fiduciary responsibilities to the plan and could be subject to personal liability if they did take these efforts to recover these funds.

Mr. Moller commented that the Board does have fiduciary liability insurance. Mr. Moller also commented that the Law Department has issued an opinion that the steps taken by the Board thus far to attempt to recover Anthem proceeds fulfill their fiduciary responsibility.

Mr. Ryder explained that the eight members filing the suit recognized that there were risks involved in filing the suit, but in addition to financial compensation they are trying to establish some independence for the Board. Mr. Ryder stated that he is aware that the City does not have unallocated resources to contribute to the plan, but his fiduciary responsibility requires his sole focus to be on the best interests of the plan. Mr. Ryder is hopeful a settlement could be worked out between the City's legal counsel and the legal counsel representing the eight members of the suit.

Ms. Lemmie asked if these individuals would consider rescinding their suit if the City could show them that they would not be at risk of any personal liability. Mr. Radford suggested the motion be held until the eight members could determine

the adequacy of their insurance coverage and discuss the independence of the Board. Mr. Rachford then rescinded his motion and Mr. Harrison rescinded his seconding of the motion.

ADJOURNMENT

Upon request of Mr. Radford for motion to adjourn, a motion was made by Ms. Lemmie, seconded by Mr. Harrison and carried. The meeting adjourned at approximately 3:25 p.m.